

Hello Neighbor,

In this email I will be going over the rate impacts contained in the Economists.com report. This email will use the numbers from the report as they are. In a second email I will discuss several basic problems with the Economists.com report. In a third email I will go through the problems with the Coe and Van Loo reports. In a fourth email, I will add some corrections to the rate impact analysis, based on the issues in the first three emails, to see what the more likely rate impact will be. The Economists.com report is posted on our website here:

<http://www.waterforpinestrawberry.com/data%20pages/PurchasePSWIDDocs.htm>.

1. The PSWID board has the following statement on their website: (www.pswid.org):

- “One of the most important conclusions of the study is that if the District can acquire the water systems for the appraised costs or even somewhat more, then the District should be able to purchase the systems, make the initial improvements to the systems that are needed to bring the systems up to a minimal level of reliability, operate the systems, AND do it without increasing water rates for at least two years. If, after two years, the members of the District wish to continue with a capital improvement program to replace the dilapidated infrastructure, the rates should then only increase a little more than two dollars per customer per month in the third year (based upon a monthly usage of 6000 gallons). In perspective, that is less than the cost of a Big Mac!”
- Comment: As will be shown below, none of what the board has said is actually supported by the Economists.com report. There is an immediate rate change for Strawberry users at the time of the purchase. The “two dollars per customer” that they refer to is for the capital improvement borrowing, not the acquisition loan. The Economists.com report does not break out the rate impact of the capital improvement loan, but the cost is well above \$2.00 per month when average out across the customers.

2. In Order to Say the First Two Years Are “Free”, Board Plays With Loan Terms

- The Economist.com report is using an acquisition loan value of **\$4,538,000**. The Payson Roundup has reported **\$5,200,000** as the amount to be financed. It appears that the Roundup got the larger number from the board.
- In the Economists.com report (page 3) it says: “This acquisition loan is assumed to have a 4.5% interest rate, a 25 year term, and interest only payments for the first two years.” They also use these same terms when figuring the loans for the capital improvements.
- A typical municipal loan has a term of 20 years and principal is paid throughout the life of the loan.
- For **\$4,538,000** at 4.5% interest for 20 years has a total cost of **\$6,890,311**. The loan being proposed has a total cost of **\$7,615,255**. To have the non-standard loan in order to say there is no rate increase for two years will cost an extra **\$724,944** over the life of the loan.

3. Board Is Incorrect That There Is No Change in Rates For Two Years

- Table 6 of the Economists.com report contains the rate assumptions being used to calculate revenues. There are two changes to the rate structure that will impact the

rates of Strawberry rate payers from the initial acquisition. It is correct that Pine sees no rate change in Table 6. A spreadsheet which analyzes the changes in the rates is posted here:

<http://www.waterforpinestrawberry.com/data%20pages/PurchasePSWIDDocs.htm>.

- Strawberry has three different rate sets: Williamson, United, and E&R. These rate sets have different base rates and usage rates, so the impact on them is different. Current base rates for a residential meter are:

- Pine: **\$18.45**
- Williamson: **\$20.35**
- United: **\$16.00**
- E&R: **\$18.45**

Current usage rates (per 1000 gallons) are:

- Pine Winter: 0–2000: **\$3.95**; 2001–6000: **\$4.96**; 6001+: **\$6.00**;
- Pine Summer: 0–2000: **\$6.00**; 2001–6000: **\$7.00**; 6001+: **\$8.00**;
- Williamson: 0+: **\$3.50**
- United: 0-4000: **\$2.20**; 4000+: **\$3.85**
- E&R: 0-4000: **\$3.40**; 4000+: **\$5.95**

- The first change that impacts Strawberry rates is that the base rates are all set to the same value as those for Pine. E&R's base rates already match Pine's, so this affects only the Williamson and United base rates.
- The second change results from going to the water usage tiers for Pine. Strawberry rates for United and E&R have two tiers, 0 to 4000 gallons and above 4000 gallons. Pine has 0 to 2000 gallons, 2001 to 6000 gallons, and above 6000 gallons. Table 6 uses the 4000+ gallon rate for the 2001-6000 tier. That means that the higher rate applies to 2000 additional gallons. Since Williamson has one rate for all water usage, this only affects the United and E&R usage rates.
- In order to merge the Pine and Strawberry rate structures without impacting the Strawberry rates, there needs to be a four tier rate structure: 0-2000, 2001-4000, 4001-6000, 6000+. This four tier structure shows up in Table 5 of the report, but Table 6 has the three tier Pine structure. Since Table 6 is where all the calculations are made, the tier structure used there is the one that counts.
- The rate changes from the initial purchase will result in the following increases/decreases to the water bills:
 - Pine Winter: 3000 gallons: **\$0 (0%)**; 5000 gallons: **\$0 (0%)**
 - Pine Summer: 3000 gallons: **\$0 (0%)**; 5000 gallons: **\$0 (0%)**
 - Williamson: 3000 gallons: **-\$1.90 (-6.2%)**; 5000 gallons: **-\$1.90 (-5.0%)**
 - United: 3000 gallons: **+\$4.10 (18.1%)**; 5000 gallons: **+\$5.75 (20.1%)**
 - E&R: 3000 gallons: **+\$2.55 (8.9%)**; 5000 gallons: **+\$5.10 (13.4%)**

4. Years 2011 and 2012 See Big Rate Increases

- In 2011, all of the usage rates are changed to match Pine's current summer rates. The base rates stay the same.
- The additional cost of the 2011 rate increase on water bills is:
 - Pine Winter: 3000 gallons: **+\$6.14 (19.6%)**; 5000 gallons: **+\$10.22 (24.8%)**
 - Pine Summer: 3000 gallons: **\$0 (0%)**; 5000 gallons: **\$0 (0%)**

- Pine Combined: 3000 gallons: +**\$3.58** (10.6%); 5000 gallons: +**\$5.96** (13.1%)
- Williamson: 3000 gallons: +**\$8.50** (40.3%); 5000 gallons: +**\$15.50** (49.6%)
- United: 3000 gallons: +**\$10.75** (18.1%); 5000 gallons: +**\$17.05** (20.1%)
- E&R: 3000 gallons: +**\$6.25** (20.0%); 5000 gallons: +**\$8.35** (19.4%)
- In 2012, there is an across the board 15% rate increase on both monthly base rates and usage rates.
 - Combined: 3000 gallons: +**\$5.62** (15.0%); 5000 gallons: +**\$7.72** (15.0%)
 - This is where the cost of the first capital improvement borrowing of **\$2,500,000** begins to show up. Whether the rate change in 2012 is totally for the capital improvement loan or for other things as well isn't broken out in the report.
 - The borrowing is interest only for the first two years. The average cost per month per user in 2012 is **\$3.34**. In 2014 when the payment increases, it is **\$4.96** per month.
- Total monthly increase across the four years:
 - Pine Combined: 3000 gallons: +**\$9.20** (27.2%); 5000 gallons: +**\$13.68** (30.1%)
 - Williamson: 3000 gallons: +**\$12.22** (39.6%); 5000 gallons: +**\$21.32** (56.3%)
 - United: 3000 gallons: +**\$20.47** (90.6%); 5000 gallons: +**\$30.52** (106.5%)
 - E&R: 3000 gallons: +**\$14.42** (50.3%); 5000 gallons: +**\$21.17** (55.7%)
- The Strawberry rate increases are significantly higher than Pine's. This is because Strawberry's rates are currently so much lower than those in Pine. Some of the difference in rates is due to the fact that there has not been a Strawberry rate increase since 2000. Pine's last rate increase was 2004.

This email is from the group Water For Pine Strawberry. We will be sending out an email after each of the PSWID meetings with a summary of what the board did, additional facts that are relevant to what went on, and some commentary. Please forward this email to friends and neighbors that are interested in the local water issues. If you would like to be added to or removed from the list for these emails, please reply to WaterForPineStrawberry@hotmail.com. Emails on earlier meetings are available on our website: www.WaterForPineStrawberry.com.

Water For Pine Strawberry is a group of residents who are concerned about the communities water issues and how they can best be resolved. Visit our web site, www.WaterForPineStrawberry.com, for more information. The website for PSWID is www.pswid.org.

Clarifications can be submitted by anyone who is explicitly named, implicitly identifiable, or a board member to items in this email. Clarifications will be posted on our website. We reserve the right to post a response. Clarifications must deal with the topics discussed in the email that relate to the individual or the board. They must be in family friendly

language and be non-abusive. When the clarification is accepted, it will be posted to the website and notice of that posting will be added to the next email.